TELECOM WELLINGTON LIMITED

NOTES TO THE FINANCIAL STATEMENTS

1 STATEMENT OF ACCOUNTING POLICIES

(i) CONSTITUTION, OWNERSHIP AND ACTIVITIES

Telecom Wellington Limited (the "Company"), was incorporated on 6th December 1988 and is a wholly-owned subsidiary of Telecom Corporation of New Zealand Limited (the "parent company" or "Telecom").

With effect from 1 April 1989 Telecom was restructured into a number of Regional Operating and New Venture companies and as a result, transferred to certain subsidiaries, including Telecom Wellington Limited, at net book value, the telecommunication equipment and other assets and liabilities relating to business previously conducted by Telecom. Telecom and its subsidiaries now together form the Telecom "Group".

The parent company was wholly owned by the Crown until 12 September 1990, when, pursuant to an agreement dated 14 June 1990, the Crown sold its shares to a consortium consisting of two American companies, American Information Technologies Corporation ("Ameritech") and Bell Atlantic Corporation ("Bell Atlantic") and two New Zealand companies, Freightways Holdings Ltd ("Freightways") and Fay, Richwhite Holdings Ltd ("Fay, Richwhite"). To comply with this agreement, Ameritech and Bell Atlantic will reduce their combined ownership of Telecom to 49.9% over the next three years by selling a combined 10% interest to Freightways and Fay, Richwhite and 40.1% to the public via stock offerings. At the completion of this transaction period, Ameritech and Bell Atlantic will each own 24.95% of Telecom.

The Crown will continue to hold a special rights convertible preference share (the "Kiwi share") in Telecom which assures that:

- Local free calling will be maintained for all residential customers
- The Standard Residential Rental for ordinary residential telephone service will not rise faster than the cost of living as measured by the Consumers' Price Index unless Telecom's Regional Operating Company profits are unreasonably affected
- Line rentals for residential customers in rural areas will be no higher than the Standard Residential Rental, and ordinary residential telephone service will remain as widely available as it is as at 11 September 1990.

These financial statements are published to comply with the Telecommunications (Disclosure) Regulations 1990 which came into force on the 1st of July 1990. As separate financial statements for the six months ended 30 September 1989 had not been prepared, no comparative figures for that period are included in these financial statements.

The principal activity of Telecom Wellington Limited is the provision of telecommunication services in the Wellington region.

(ii) GENERAL ACCOUNTING POLICIES

These financial statements report on the affairs of the company as a going concern.

The measurement basis adopted is historical cost. Accrual accounting is used to match income and expenses.

(iii) SPECIFIC ACCOUNTING POLICIES

(A) FIXED ASSETS

Fixed assets are valued at the cost at which they were purchased by Telecom Corporation of New Zealand Limited from the Crown as at 1 April 1987, adjusted by subsequent additions at cost, disposals and depreciation. The fixed assets were purchased from the Crown on the basis of depreciated replacement cost using estimated remaining lives as at 1 April 1987.

Telecom Wellington Limited purchased fixed assets from Telecom as at 1 April 1989 at cost (as above) less accumulated depreciation pursuant to a Sale and Purchase Agreement dated 31 March 1989 and a supplementary agreement dated 28 September 1989. Subsequent additions have been recorded at cost.

The cost of additions to plant and equipment constructed within the Telecom Group subsequent to 1 April 1987 consists of all appropriate costs of development, construction and installation comprising material, labour, direct overheads and transport costs.

For each fixed asset project having a cost in excess of $10 million and a construction period of not less than 12 months, interest cost incurred during the period of time that is required to complete and get the fixed asset ready for its intended use is capitalised as part of the total cost.

Where capital project commitments are hedged against foreign currency rate risk, the capital project is recorded at the hedged exchange rate.

Telecommunication equipment includes that part of the network system up to and including the contracted demarcation point, terminal equipment installed within customers' premises and the cabling and wiring within commercial buildings where this has been supplied by the Group in its own right.

Costs associated with the installation, connection and provision of services are charged to earnings.

Maintenance and repairs, including minor renewals and betterments, are charged to earnings as incurred.